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**BOYS AND GIRLS CLUBS
OF SOUTHEAST LOUISIANA, INC.**

**Independent Auditor's Report and Financial Statements
June 30, 2004**

Deemer CPA and Consulting Services, LLC

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 4/29/05

Boys and Girls Clubs of Southeast Louisiana, Inc.

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Independent Auditor's Report

**To the Board of Directors
Boys and Girls Clubs of Southeast Louisiana, Inc.**

I was engaged to audit the accompanying statement of financial position of Boys and Girls Clubs of Southeast Louisiana, Inc. (Boys and Girls Clubs, a nonprofit organization) as of June 30, 2004, and the related statement of activities for the fiscal year then ended. These financial statements are the responsibility of Boys and Girls Clubs' management.

The accounting and reporting process for payroll, cash disbursements, fixed assets, prepaid expenses, accounts/grants receivables and accounts payable were ineffective during the fiscal year ended June 30, 2004.

Additionally, the management of Boys and Girls Clubs was unable to provide detailed account information for most of the previously mentioned financial statement accounts. There was an excessive use of journal entries which were recorded without explanation. As a result, the accuracy and appropriateness of the transactions and balances contained within these accounts was indeterminable.

The Boys and Girls Clubs management also did not present a statement of cash flows in accordance with generally accepted accounting principles. This statement would provide details of the financial position of the organization, results of operations, and cash flows at June 30, 2004.

Due to the significance of the matters described above, and since the scope of work was not sufficient, I am unable to express and I do not express, an opinion on the financial statements of the Boys and Girls Clubs of Southeast Louisiana, Inc.

In accordance with Government Auditing Standards, I have also issued my report dated March 31, 2005 on my consideration of Boys and Girls Clubs, Inc.'s internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contract, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report, which explains that I did not audit the accompanying financial statements.


New Orleans, Louisiana
March 31, 2005

**BOYS & GIRLS CLUBS
OF
SOUTHEAST LOUISIANA, INC.**

Statement of Financial Position

June 30, 2004

Assets	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Current assets:				
Cash	\$ 977,523	-	-	977,523
Accounts receivable - United Way	-	438,600	-	438,600
Prepaid Expenses	12,137	-	-	12,137
Due (To)/From other classes of net assets	(1,485,115)	1,485,115	-	-
Total current assets	<u>(495,455)</u>	<u>1,923,715</u>	<u>-</u>	<u>1,428,260</u>
Land, building and equipment, net of accumulated depreciation	<u>494,666</u>	<u>-</u>	<u>-</u>	<u>494,666</u>
Total assets	<u>\$ (789)</u>	<u>1,923,715</u>	<u>-</u>	<u>1,922,926</u>
Liabilities and Net Assets				
Current liabilities:				
Cash Overdraft	\$ 5,294	-	-	5,294
Accounts Payable & other liabilities	91,516	-	-	91,516
Payroll tax & related liabilities	137,293	-	-	137,293
Total current liabilities	<u>234,103</u>	<u>0</u>	<u>0</u>	<u>234,103</u>
Net assets:				
Unrestricted	1,451,806	-	-	1,451,806
Temporarily restricted	-	234,367	-	234,367
Permanently restricted	-	-	2,650	2,650
Total net assets	<u>1,451,806</u>	<u>234,367</u>	<u>2,650</u>	<u>1,688,823</u>
Total liabilities and net assets	<u>\$ 1,685,909</u>	<u>234,367</u>	<u>2,650</u>	<u>1,922,926</u>

The accompanying notes are an integral part of these financial statements.

**BOYS & GIRLS CLUBS
OF
SOUTHEAST LOUISIANA, INC.**

Statement of Activities

For the Year Ended June 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Contributions	\$ 298,366	-	-	298,366
Allocation from United Way	-	211,363	-	211,363
Membership dues	4,015	-	-	4,015
Program service fees	29,016	-	-	29,016
Special events	19,622	-	-	19,622
Grants and Contracts	1,482,749	-	-	1,482,749
Other	278,056	-	-	278,056
Total revenues	<u>2,111,824</u>	<u>211,363</u>	<u>-</u>	<u>2,323,187</u>
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>317,788</u>	<u>(317,788)</u>	<u>-</u>	<u>0</u>
Total revenues, gains, and other support	<u>\$ 2,429,612</u>	<u>(106,425)</u>	<u>-</u>	<u>2,323,187</u>
Expenses:				
Program services:				
Social Development	<u>1,351,775</u>	<u>-</u>	<u>-</u>	<u>1,351,775</u>
Total program services	<u>1,351,775</u>	<u>-</u>	<u>-</u>	<u>1,351,775</u>
Supporting services:				
Management and general	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund raising	<u>16,191</u>	<u>-</u>	<u>-</u>	<u>16,191</u>
Total supporting services	<u>16,191</u>	<u>-</u>	<u>-</u>	<u>16,191</u>
Total expenses	<u>1,367,966</u>	<u>-</u>	<u>-</u>	<u>1,367,966</u>
Changes in net assets	<u>1,061,646</u>	<u>(106,425)</u>	<u>-</u>	<u>955,221</u>
Net assets, beginning of year	<u>390,160</u>	<u>340,792</u>	<u>2,650</u>	<u>733,602</u>
Net assets, end of year	<u>\$ 1,451,806</u>	<u>234,367</u>	<u>2,650</u>	<u>1,688,823</u>

The accompanying notes are an integral part of these financial statements.

Boys and Girls Clubs of Southeast Louisiana, Inc.
Notes to the Financial Statements
June 30, 2004

1. Summary of Significant Accounting Policies

General

Boys and Girls Clubs of Southeast Louisiana, Inc. (Boys and Girls Clubs), is a non-profit organization with Club locations in New Orleans, Gretna, Slidell, Covington, Houma and Hammond which are utilized to provide programs and services to enhance the development of boys and girls. The Clubs offer diversified program activities to instill character and leadership development, education and career development, health and life skills, the arts, sports, fitness and recreation. Boys and Girls Clubs is an affiliate member of the Boys and Girls Clubs of America.

Basis of Accounting

The accounts of Boys and Girls Clubs are maintained in accordance with fund accounting principles to ensure that both resources and disbursements are classified according to the activities and objectives specified.

The net assets and changes therein of Boys and Girls Clubs are classified as follows:

- Unrestricted Net Assets – Net Assets not subject to donor-imposed restrictions.
- Temporarily restricted Net Assets – Net assets subject to donor-imposed restrictions that may be met either by an action and/or through the passage of time.
- Permanently restricted Net Assets – Net Assets subject to donor-imposed restrictions that will not expire through the passage of time and/or an action.

Federal Income Tax

Boys and Girls Clubs is exempt from Federal income tax under the Internal Revenue Code Section 501(c)(3).

United Way Campaign Support

A major source of funding for the Boys and Girls Clubs is derived from the United Way for the Greater New Orleans Area. The United Way for the Greater New Orleans Areas' donations are recorded as temporarily restricted revenue and accounts receivable when

Summary of Significant Accounting Policies (continued)

the award letters are released for the following fiscal year. In the following fiscal year, the time restriction is fulfilled and the asset is released as an unrestricted asset.

NFL/YET Center

Boys and Girls Clubs entered into a management agreement on December 19, 2003 with the National Football League Charities, Inc. and the National Football League Youth Education Town Corporation to provide management, operation and maintenance of an NFL/Youth Education Town Boys and Girls Club Center in New Orleans. As a result of the management agreement, the National Football League Charities, Inc. provided a one million dollar grant to the NFL/Youth Education Town Boys and Girls Club Center in New Orleans.

Contributions

Contributions made to the Boys and Girls Clubs are available for the organizations' general programs unless restricted by the donor. Any restricted donations are reported as temporarily restricted support until the donor restrictions expire, at which time the net asset is reclassified to unrestricted net assets.

Land, Building and Equipment

Improvements which significantly extend the useful life of an asset and purchases of land, buildings and equipment are capitalized at cost. The straight line method of depreciation is used for the assets owned by the Boys and Girls Clubs. Gifted long-lived assets are reported at their estimated fair market value and as unrestricted, in the absence of donor-imposed restrictions on the use of assets.

Cash and Cash Equivalents

Cash is comprised of cash in banks.

Compensated Absences

Employees earn ten to twenty vacations days on an annual basis, depending upon their years of service. Unused vacation days are not carried forward to the next year, any unused time is lost.

Employees also earn ten days of sick leave per calendar year. Unused sick leave is also lost if not used by the end of the calendar year.

Summary of Significant Accounting Policies (continued)

Use of Estimates

The financial statements of Boys and Girls Clubs are prepared in conformity with generally accepted accounting principles which include estimates made by management. Accordingly, actual results may differ from those estimates.

Economic Dependency

Boys and Girls Clubs' receives its funding through grants from the State of Louisiana, Boys and Girls Clubs of America, and other local municipalities. Additionally, the organization receives contributions from the United Way of the Greater New Orleans Area and the NFL/YET program. Any significant budget cuts or reduction in donations could have a significant impact on the operations of the organization.

2. Net Assets

As of June 30, net assets consist of the following:

Temporarily net assets	
Time restrictions – United Way	\$234,367
Permanently restricted net assets	
Capital Improvements	2,650

3. Operating Leases

The Boys and Girls Clubs of Southeast Louisiana, Inc. leases several facilities for its main office and clubs. Lease expense for the year ended June 30, 2004 was \$36,615.

The future minimum lease payments as of June 30, 2004 are \$17,000 for the year ending June 30, 2005.

4. Contingencies

A civil suit was brought against the Boys and Girls Clubs of Southeast Louisiana, Inc. by a former employee alleging that employer contributions were not submitted to the organizations' retirement plan. Management believes that the financial impact of this lawsuit will not materially affect the financial condition of the Boys and Girls Clubs.

5. Payroll Tax

The Boys and Girls Clubs of Southeast Louisiana, Inc. has a significant amount of delinquent federal and state payroll taxes. The Internal Revenue Service and the State of Louisiana Department of Labor has established installment plans, in the amount of \$3,800 and \$635 per month, respectively until the balances are paid in full. These installment plans are contingent upon the organizations' timely submission of the payment amounts as well as their timely submission of any current payroll taxes.

**BOYS & GIRLS CLUBS
OF
SOUTHEAST LOUISIANA, INC.**

Statement of Functional Expenses

For the Year Ended June 30, 2004

	<u>Program Services</u>		<u>Support Services</u>		
	<u>Social Development</u>	<u>Management and general</u>	<u>Fund- raising</u>	<u>Total</u>	
Expenses:					
Salaries & Wages	\$ 793,052	-	-	793,052	
Employee benefits	21,228	-	-	21,228	
Payroll taxes and related expenses	108,758	-	-	108,758	
Total salaries and related benefits	<u>923,038</u>	<u>-</u>	<u>-</u>	<u>923,038</u>	
Professional fees and contract services	21,328	-	-	21,328	
Supplies	33,763	-	16,191	49,954	
Telephone	36,147	-	-	36,147	
Water & Utilities	23,316	-	-	23,316	
Other office expenses	5,077	-	-	5,077	
Summer Camp expenses	38,547	-	-	38,547	
Food Supplies	15,720	-	-	15,720	
Occupancy	36,615	-	-	36,615	
Grounds Maintenance	7,638	-	-	7,638	
Equipment Maintenance	14,911	-	-	14,911	
Taxes, penalties and interest	60,010	-	-	60,010	
Insurance	54,375	-	-	54,375	
Local meetings and transportation	7,076	-	-	7,076	
Conferences, conventions, meetings, major trips	28,263	-	-	28,263	
Meals and Entertainment	11,707	-	-	11,707	
Dues support to Boys & Girls Clubs of America	10,711	-	-	10,711	
Miscellaneous expenses	23,533	-	-	23,533	
Total Expenses	<u>\$ 1,351,775</u>	<u>-</u>	<u>16,191</u>	<u>1,367,966</u>	

The accompanying notes are an integral part of these financial statements.

**Report on Compliance and on Internal
Control Over Financial Reporting Based on an Audit of
Financial Statements Performed in
Accordance with Government Auditing Standards**

**Board of Directors
Boys and Girls Clubs of Southeast Louisiana, Inc.**

I was engaged to audit the financial statements of the Boys and Girls Clubs of Southeast Louisiana, Inc. as of and for the year ended June 30, 2004, and have issued my report thereon dated March 31, 2005. I did not express an opinion on the financial statements, because of the significant inadequacies in the internal controls of the organization, the lack of detailed information available regarding various account balances, and since I was unable to rely on the accounting system used. I was not able to apply other auditing procedures to satisfy myself in these areas.

Compliance

As part of obtaining reasonable assurance about whether the Boys and Girls Clubs of Southeast Louisiana, Inc.'s financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings and questioned costs as items 04.5, 04.7, 04.9, 04.11, 04.13, 04.15, and 04.16.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Boys and Girls Clubs of Southeast Louisiana Inc.'s internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve

matters coming to our attention relating to significant deficiencies in internal control over financial reporting that in our judgment could adversely affect the Boys and Girls Clubs ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04.1, 04.2, 04.3, 04.4, 04.5, 04.6, 04.8, 04.09, 04.10, 04.11, 04.12, 04.13, 04.14, 04.15.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. I believe that the reportable conditions that are also considered to be material weaknesses are 04.1, 04.2, 04.3, 04.4, 04.6, 04.09, 04.10, 04.11, 04.13, and 04.15.

This report is intended solely for the information of the Boys and Girls Clubs of Southeast Louisiana, Inc., management, grant awarding agencies, and the State of Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Deemer CPA and Consulting Services, LLC
New Orleans, Louisiana
March 31, 2005

Boys and Girls Clubs of Southeast Louisiana, Inc.
Schedule of Findings and Questioned Costs
June 30, 2004

04.1 Accounting Department Staffing

Criteria:

Internal Controls and sound business practices require adequately staffed accounting departments.

Condition:

The accounting department of the Boys and Girls Clubs consisted of a part-time, non-degreed accountant. Many of his duties were performed outside of normal business hours without oversight or proper supervision.

Cause:

The Executive Director thought the hiring of this accountant would be sufficient for fulfilling the financial reporting requirements of the organization.

Effect:

Without an adequate accounting function, errors, irregularities, and non-compliance with laws and regulations could exist and not be detected.

Recommendation:

The Boys and Girls Clubs of Southeast Louisiana, Inc. should employ a Chief Financial Officer to adequately staff their accounting department.

Management's Response:

The Boys and Girls Clubs of Southeast Louisiana, Inc. is in the process of defining requirements and qualifications to recruit a full time Chief Financial Officer or equivalent. The recruitment process is projected to be completed within 60 days.

04.2 Incomplete, Untimely, and Un-reconciled Financial Statements

Criteria:

Financial statements should be completed and reconciled on a monthly basis. Additionally, at the end of each fiscal year, the statements should be reviewed for required year-end adjustments and/or reclassifications.

Condition:

The June 30, 2004 Boys and Girls Clubs financial statements were not made available for audit until February, 2005. At that time, the organizations' operating cash account was not reconciled, and the trial balance provided did not include beginning balances.

A second set of financial statements was then provided in early March 2005, whereby the cash accounts were presented as reconciled, but the trial balance did not include all accounts represented in the financial statements. Additionally, the general ledger provided for audit did not include all accounts presented in the financial statements.

Cause:

An appropriate level of supervision related to accounting was not provided by the Boys and Girls Clubs of Southeast Louisiana's home office.

Effect:

Without complete, reconciled financial statements maintained in a timely manner, the financial condition of an organization is indeterminable. Additionally, there is a substantial risk that omissions, errors, and/or irregularities can exist and not be detected.

Recommendation:

It is recommended that the Boys and Girls Clubs of Southeast Louisiana employ an adequate accounting staff who will be required to submit complete and reconciled financial statements on a monthly basis to both upper level management and the Board of Directors.

Management's Response:

The Boys and Girls Clubs of Southeast Louisiana, Inc. will recruit a full time Chief Financial Officer who will be required to produce monthly financial statements and submit them to the Executive Director and Board of Directors.

04.3 Inappropriate Use of Journal Entries

Criteria:

A system of sound internal controls would include a review and approval of all proposed journal entries by the organizations' accountant. The number of journal entries should be limited, since most transactions are developed through normal cash receipts and check disbursements.

Condition:

During my audit, I noted an excessive amount of journal entries, which at times were duplicated and even reversed. Additionally, the journal entries were made without an explanation appearing in the general ledger. There were no journal entry forms maintained on file which may have indicated the reason for each adjustment.

Cause:

The part-time accountant was not reporting to a supervisor for review of his monthly accounting process.

Effect:

The lack of adequate controls over the posting of journal entries, may cause errors, irregularities, and/or duplications that may exist and not be detected timely.

Recommendation:

Journal entries should be kept to a minimum and should not be posted without prior review and approval from an accounting supervisor. Journal entry forms should be maintained to fully explain the reason for the entry and to show proper review and approval prior to posting.

Management's Response:

The Boys and Girls Clubs of Southeast Louisiana, Inc. will revise its accounting policies and procedures to minimize the use of journal entries. Journal entries will require review and approval.

04.4 Inadequate Training on Blackbaud accounting system

Criteria:

Employees must be adequately trained in using the organizations' Blackbaud accounting software.

Condition:

Requests for financial data during the audit could not be satisfied because of the staff's inability to manipulate and extract data from the accounting system. The staff was unable to provide a trial balance, general ledger and financial statements that agreed. A cash flow statement could not be derived from the accounting system. Also, accounts appeared in the financial statements that were not in the general ledger.

Cause:

The Boys and Girls Clubs of Southeast Louisiana, Inc. has not adequately trained employees in the use of their accounting software. I was informed by the Executive Director that it costs thousands of dollars to acquire training in the use of this particular system. The training involves travel costs as well as actual classroom fees.

Effect:

The accounting staff cannot operate in an efficient and effective manner, if they are not fully trained in the use of their accounting software. They also cannot accomplish accurate and timely reporting of financial data. The financial statements of Boys and Girls Club of Southeast Louisiana, Inc. may be materially misstated.

Recommendation:

The Boys and Girls Clubs must adequately train and supervise accounting staff in the use of their accounting software. The organization may want to pursue the use of another software package which may require a minimal amount of training effort and may present more accounting staff prospects.

Management's Response:

The Boys and Girls Clubs of Southeast Louisiana, Inc. recognizes that the existing accounting system is complex and cumbersome. The agency has researched less complex accounting software and assessed recommendations provided by Boys and Girls Clubs of America. The existing software will be replaced and appropriate employees will be adequately trained and remain current on its use.

04.5 Fund Accounting Not Fully Implemented

Criteria:

The Boys and Girls Clubs of Southeast Louisiana, Inc. entered into a management agreement on December 19, 2003 with the National Football League Charities, Inc. whereby the National Football League Charities donated \$1,000,000 to the organization. These funds were to be utilized to manage, operate, and maintain the NFL/YET Boys and Girls Clubs New Orleans Center.

Condition:

It was noted that a separate class was generated to record NFL/YET center transactions, however, several NFL/YET expenditures were improperly recorded into other account classes.

Cause:

Ineffective leadership in the accounting department and lack of communication regarding the use of funds is apparent.

Effect:

The failure to maintain an adequate chart of accounts and to utilize the accounts appropriately has led to improperly recorded transactions.

Recommendation:

An adequate chart of accounts must be maintained and proper supervision as well as communication regarding the disbursing of funds is essential to proper account classification.

Management's Response:

While recruiting a Chief Financial Officer, the Boys and Girls Clubs of Southeast Louisiana, Inc. will require non-profit and fund accounting experience. The chart of accounts will be updated to ensure proper accounting classification.

04.6 Fixed Assets Schedule Not Maintained

Criteria:

The Louisiana State Revised Statute 24:515(b) requires that all governments “shall maintain records of all land, buildings, improvements other than buildings, equipment, and any other general fixed assets which were purchased or otherwise acquired, and for which such entity is accountable.”

Condition:

A fixed asset detail was requested to detail the change in fixed assets from the prior fiscal year. A schedule was provided, however, it had not been updated since the prior fiscal year. Additionally, the amounts shown on the financial statements were not included in the general ledger that was provided for audit. There was also no posting of depreciation expense, however accumulated depreciation did not agree with the June 30, 2003 audited amount.

Effect:

The lack of adequate internal controls over fixed assets and accounting in general, compromises the safeguarding of assets. Additionally, the fixed asset amount included in the financial statements could not be tested because there is no detail of the purchase/disposal activity of the June 30, 2004 fiscal year.

Recommendation:

Adequate policies and procedures relating to fixed assets should be adopted and fully implemented in the general services office of the Boys and Girls Clubs. These procedures must include consideration of each Boys and Girls Clubs site location.

Management's Response:

The Boys and Girls Club of Southeast Louisiana, Inc. will update its accounting policies and procedures to adequately account for fixed assets.

04.7 Eligibility Requirements for Member Organizations Not Met

Criteria:

The Boys and Girls Clubs of Southeast Louisiana, Inc. is an affiliate member of the Girls and Boys Clubs of America. According to the Boys and Girls Clubs of America's Human Resource Requirements, the Boys and Girls Clubs of Southeast Louisiana, Inc. should maintain "a retirement program which is in addition to Social Security."

Condition:

The Boys and Girls Clubs of Southeast Louisiana, Inc. discontinued a retirement plan that was previously in effect for its employees, however, they have not entered into a new arrangement for staff.

Cause:

A former employee brought a civil suit against the Boys and Girls Clubs of Southeast Louisiana, Inc. alleging employer contributions were not contributed to the retirement plan. The organization has not implemented a plan to include all current employees in a formal retirement system.

Effect:

The organization is not in compliance with the human resource requirements of the Boys and Girls Clubs of America.

Recommendation:

The Boys and Girls Clubs of Southeast Louisiana, Inc. should make available a retirement plan for all full time employees with a plan to proper enrollment and adequate funding of the plan.

Management's Response:

The Boys and Girls Clubs of Southeast Louisiana, Inc. is researching retirement plans as well as clarifying the requirements of Boys and Girls Clubs of America.

04.8 Operations Manual and Personnel Policy Manuals are Outdated

Criteria:

Adequate internal controls relating to personnel actions and general operations require a current reference point for employees to ensure their adherence to best practices and the organizations' policies.

Condition:

The organizations' Personnel Policies and Practices Manual has not been updated since June 11, 1998 and their Operations Manual was last updated Sept. 1, 1998.

Cause:

It was indeterminable as to why these manuals have not been updated.

Effect:

The manuals reflect employee mileage reimbursement at .17/mile and travel per diem reimbursements at \$25/day. These amounts were no longer adhered to by upper level management, however there was no consistency in the reimbursement of these types of expenses. Certain employees were reimbursed mileage according to gas receipts and no reference to mileage rates, also meals were reimbursed according to receipts and no reference to a per diem requirement.

Recommendation:

Personnel Policies and Practices Manuals as well as the organizations' Operations Manual must contain current data to ensure management and employee adherence to the policies. They should also be a reference point that is deemed important to day to day operations of the organization. This can only be accomplished if the manuals are made available to all employees, reviewed, and updated by management on a consistent basis.

Management's Response:

The Board Chairman has tasked the Human Resources Committee to update the Human Resources Policies and Practices Manual. Additionally, the Executive Director is updating the Operations Manual.

04.9 Reimbursement for Meals Not Associated with Out-Of-Town Travel
Questioned Costs: \$7,937.90

Criteria:

The Operations Manual of the Boys and Girls Clubs of Southeast Louisiana, Inc. states that "a rate of \$25/day will be reimbursed for meals associated with out-of-town travel."

Condition:

There was approximately \$7,937.90 reimbursed to the Executive Director of Boys and Girls Clubs of Southeast Louisiana, Inc. or paid with the organizations' debit card directly to restaurants in the greater New Orleans area for meals not associated with out-of-town travel. The employment contract of the Executive Director was reviewed and there appeared to be no stipulations for the reimbursement of daily meals, either.

Cause:

The Boys and Girls Clubs of Southeast Louisiana, Inc. expended approximately \$7,937.90 in meals and entertainment expenses for daily meals of the executive director and other employees.

Effect:

The lack of adequate internal controls related to the disbursement of funds could result in errors, irregularities, and misappropriation of assets.

Recommendation:

The Boys and Girls Club of Southeast Louisiana, Inc. should not maintain debit cards for purchases. Additionally, any reimbursements made to employees should be reviewed and approved by a higher level of management. Executive Director reimbursement requests should be submitted to and approved by a member of the organization's Board of Directors.

Management's Response:

Use of debit cards has been discontinued. Policies have been modified to require approval of the Budget and Finance Committee Chair for all reimbursements to the Executive Director.

04.10 Debit Cards Maintained on Cash Accounts

Criteria:

The proper adoption and implementation of internal controls will ensure accountability with regards to the disbursement of funds and subsequent reporting of those transactions in an organization. A debit card can secure purchases without any prior request or approval of company officials.

Condition:

There was several debit/ATM withdrawal transactions noted in each month of the organizations' bank statements (operating account) and the NFL/YET (operating account) during the fiscal year ended June 30, 2004. The organization's staff was unable to locate any supporting documentation for these transactions when requested during the audit.

Cause:

The use of a debit card does not allow for proper approval of expenditures and makes it difficult to maintain appropriate documentation on file related to expenditures.

Effect:

The lack of adequate controls related to cash disbursements may have resulted in unauthorized purchases.

Recommendation:

It is recommended that all debit card accounts be closed and the Boys and Girls Clubs of Southeast Louisiana, Inc. utilize a purchase requisition and/or purchase order system.

Management's Response:

Use of debit cards has been discontinued.

04.11 Checks Written Without Required Second Signature
Questioned Costs: \$227,924.45

Criteria:

The Boys and Girls Clubs of Southeast Louisiana, Inc. has communicated that its' Board policy requires all checks written for amounts greater than \$500.00 to have a second signature from a board member. Also, according to the NFL/YET Center management agreement "all distributions from the NFL/YET BGC New Orleans Center fund in excess of \$500.00 shall be made only as approved by the Board of Directors of the NFL/YET BGC New Orleans Center and the Local BGC."

Cause:

Boys and Girls Clubs of Southeast Louisiana, Inc. is not enforcing their policies for purchasing and disbursement functions. There are no second signatures on any checks greater than \$500.00 during the fiscal year June 30, 2004. Due to the specific stipulations of the NFL/YET management agreement, those expenditures associated with this agreement are represented as questioned costs above. Invoices, cancelled checks and other supporting documentation were made available for certain purchases sampled.

Effect:

The lack of adequate internal controls relating to disbursement of funds may have resulted in assets being misappropriated and/or the financial statements being materially misstated.

Recommendation:

Boys and Girls Clubs of Southeast Louisiana, Inc. should implement and follow all Board policy rules and the rules and regulations of all grant agreements, management agreements, etc.

Management's Response:

The dual signature policy will be enforced by monthly monitoring of disbursements by the Budget and Finance Committee. Violation of policy will result in disciplinary action.

04.12 Personnel Files Not Updated

Criteria:

Personnel files should be maintained with documentation of any salary changes. Adequate internal controls relating to payroll and human resources require that specific procedures be implemented to ensure proper payment and notation of position held for persons employed at the Boys and Girls Clubs of Southeast Louisiana, Inc.

Condition:

During the payroll testwork performed the following deficiencies in the internal control system were noted:

- Employees were paid at rates different than the amounts noted in their personnel file
- A certain hourly employee did not have any timesheets on file, while timesheets were maintained for all other employees
- Employees were paid car allowances with no documentation of the benefit in their personnel file or contract

Cause:

The Boys and Girls Clubs of Southeast Louisiana, Inc. did not update and maintain complete personnel files. Adequate policies and procedures did not exist to ensure that the files were properly maintained.

Effect:

The lack of adequate internal controls relating to the payroll and human resources function at the Boys and Girls Clubs significantly increases the risk that material errors and irregularities could exist and not be detected.

Recommendation:

The Boys and Girls Clubs of Southeast Louisiana, Inc. should document and implement policies to ensure that personnel files are maintained appropriately.

Management's Response:

The Board Chairman has tasked the Human Resources Committee to update the Human Resources Policies and Practices Manual to include requirements for periodic internal review of personnel files to ensure accurate and timely updates.

04.13 W-2's Not Issued To All Employees

Criteria:

The Internal Revenue Service requires that all employed individuals be issued a W-2 (Wage Statement) each year to report their earnings. Additionally, payroll taxes both employee and employer should be remitted timely and in accordance with Internal Revenue Service and State of Louisiana rules and regulations for all employees.

Condition:

It was noted that the Executive Director and the Director of Operations for the NFL/YET Center were paid their gross salary amounts from the Boys and Girls Clubs Of Southeast Louisiana, Inc.'s operating account, while all other employees were appropriately paid net pay amounts from the payroll account through an external payroll processing company. Additionally, it was noted that neither the Executive Director nor the Director of Operations for the NFL/YET Center received W-2's from the organization for the calendar year 2003. It was noted that the Executive Director was placed in the payroll process and began reporting income tax through the organization in February 2004. The Director of Operations of the NFL/YET Center's wages were reported through the payroll system in March 2004. W-2's were issued for both employees in 2004 but the amounts for both appear to be understated.

Cause:

The Boys and Girls Clubs and these employees appear to have underreported and underpaid payroll taxes to both the Federal and State government.

Effect:

The Boys and Girls Clubs of Southeast Louisiana, Inc. appears to have significantly underreported and underpaid their federal and state employment tax obligations. The financial statements of the Boys and Girls Clubs of Southeast Louisiana, Inc. for the fiscal year ended June 30, 2004 may be materially misstated.

Recommendation:

The Boys and Girls Clubs of Southeast Louisiana, Inc. must immediately contact the Internal Revenue and State Department of Revenue to begin the process for filing amended Employer Tax Forms.

Management's Response:

The Boys and Girls Clubs of Southeast Louisiana, Inc. is researching the condition to determine the amount of underreporting of employment taxes, if any. Based on those findings, the agency will file amended returns if necessary.

04.14 Inadequately Documented Employee Earnings

Criteria:

Internal controls related to payroll and human resources, requires an employee file to include the duties, position, and salary amount for each employee.

Condition:

An employee's earnings did not appear to be consistent with documentation in the personnel files. Certain checks written to the employee were described as contract differences and payroll advances. There was not adequate documentation to support the disbursement of funds. The total amount disbursed to the employee appears to have exceeded to most recent documentation of the intended salary.

Cause:

There was a lack of internal controls relating to payroll and cash disbursements at the Boys and Girls Clubs of Southeast Louisiana, Inc.

Effect:

The lack of adequate internal control implementation significantly increases the risk that material errors and irregularities could exist and not be detected.

Recommendation:

Internal control implementation must be improved upon at the general services office of the Boys and Girls Club. Also, the organization must investigate the difference in salary payments and reporting and file amended Employer Tax forms as needed.

Management's Response:

Internal controls will be strengthened through the hiring of a Chief Financial Officer and increased Board oversight of financial management. The Boys and Girls Clubs of Southeast Louisiana, Inc. is researching the condition to determine the amount of underreporting of employment taxes, if any. Based on those findings, the agency will file amended returns if necessary.

04.15 No Supporting Documentation on Various Expenditures
Questioned Cost: \$61,100.03

Criteria:

An organization should maintain records in such a manner that an “audit trail” is available on all transactions.

Condition:

The following disbursements were made and there was insufficient supporting documentation on file for the expenditure:

- \$56,204.03 cash withdrawal from the NFL/YET center’s operating account which was described as a State Tax Levy. The staff of the organization could not explain or provide documentation for the withdrawal.
- \$4,000 check written to the Executive Director and signed by the Executive Director for reimbursement of theme park tickets. There was no invoice on file, vendor receipt, or copy of the payment made for which the reimbursement was being requested.
- Seven separate reimbursements in the amount of \$128.00 to various employees totaling \$ 896.00 did not have receipts on file to support the requests for reimbursement.

Cause:

Insufficient maintenance of supporting documentation is the result of a lack of internal controls relating to cash disbursements.

Effect:

A cash disbursement in the amount of \$56,204.03 was made from a grant provided by the NFL Charities without appropriate documentation on file. It is indeterminable as to whether or not the state tax levy was associated with the management agreement between NFL charities and the Boys and Girls Clubs of Southeast Louisiana, Inc.

Recommendation:

Supporting documentation should be maintained on file for all cash disbursements. This information should be readily available for review.

Management’s Response:

The Boys and Girls Clubs of Southeast Louisiana, Inc. is researching the transaction described as a State Tax Levy. If valid, and incorrect funds were used, reimbursement to the fund will be made. The dual signature policy will be enforced by monthly monitoring of disbursements by the Budget and Finance Committee to ensure proper oversight of disbursements in excess of \$500. Policies have been modified to require approval of the Budget and Finance Committee Chair for all reimbursements to the Executive Director.

04.16 Payments Made to Political Organizations
Questioned Costs: \$125.00

Criteria:

The Internal Revenue Service states that organizations described in Section 501(c)(3) of the code "cannot endorse any candidates, make donations to their campaigns, engage in fundraising etc...."

Condition:

The Executive Director of the Boys and Girls Clubs of Southeast Louisiana, Inc.(a nonprofit organization under IRS 501(c)(3)) requested and received reimbursement totaling \$50.00 for personal funds spent to attend a dinner with the Jefferson Parish Republican Women's organization. Additionally, the Executive Director wrote a check from the Boys and Girls Clubs account in the amount of \$75.00 to the Louisiana Republican Party for an "Elephant Stomp" function.

Cause:

The lack of proper implementation of internal controls associated with cash disbursements at the Boys and Girls Clubs of Southeast Louisiana, Inc. caused inappropriate disbursements to be made.

Effect:

Payments made to political organizations from charitable organizations may jeopardize the non-profit status of an organization and may also jeopardize funding from various granting sources.

Recommendation:

Internal controls must be implemented to prevent inappropriate disbursement of funds in the future. Additionally, these particular funds should be reimbursed to the Boys and Girls Clubs.

Management's Response:

Internal controls have been strengthened and Boys and Girls Clubs of Southeast Louisiana, Inc. personnel have been notified in writing that no payments can be made to political organizations. Reimbursements are being requested.

04.17 Delinquent Audit Report Submission

Criteria:

According to Louisiana Revised Statute 24:513A.(5)(a), “.....audits shall be completed within six months of the close of the entity’s fiscal year.”

Also, in accordance with the management agreement between NFL Charities and the Boys and Girls Clubs of Southeast Louisiana, Inc. “.....subjecting the books, records and accounts of the NFL/YET BGC New Orleans Center, including, without limitation, the NFL/Yet BGC New Orleans Center Fund, to an annual certified audit....”

Condition:

The audit of the financial statements of Boys and Girls Clubs of Southeast Louisiana, Inc. was not completed within six months of the close of the entity’s fiscal year.

Cause:

A set of June 30, 3004, financial statements for the Boys and Girls Clubs of Southeast Louisiana, Inc. was not made available for audit until March 2005.

Effect:

The organization’s inability to provide audited financial statements within the required timeframe may result in further review by the State Legislative Auditor and/or other funding sources.

Recommendation:

The Boys and Girls Clubs should staff the accounting department appropriately and require monthly financial statements to ensure completion of the year end financial statements in a timely manner.

Management’s Response:

The Boys and Girls Clubs of Southeast Louisiana, Inc. will recruit a Chief Financial Officer who will be required to produce monthly financial statements and submit them to the Executive Director and Board of Directors. This will ensure the timely preparation of financial statements and that future audits will be completed in accordance with the referenced statute and agreements.

Boys and Girls Clubs of Southeast Louisiana, Inc.
Status of Prior Year Findings
June 30, 2004

03.1 - Bank Reconciliations not performed on a regular basis.

Unresolved

03.2 - Temporarily Restricted net assets were used in prior years to fund the operating expenses of Boys and Girls Clubs.

Unresolved

03.3 - Payroll Tax and Related Liabilities – various unpaid payroll related liabilities.

Unresolved

03.4 - Financial Statements are not prepared on a monthly basis

Unresolved